

PHILIP MORRIS USA

INTER-OFFICE CORRESPONDENCE

120 PARK AVENUE, NEW YORK, NY 10017-5592

TO: Mike Mahan / Bob Mikulay

FROM: Tom Garguilo/Sonya Rush/Giuseppe D'Alessandro

SUBJECT: Basic Non-Filter Direct Mailing to Pall Mall Smokers

DATE: September 2, 1993

Per your request, we've investigated various direct mail programs using Basic Non-Filter to target Pall Mall smokers.

In summary, we recommend a live product mailing of 5 packs in a carrier similar to the attached. Basic Non-Filter has weak distribution (34%) and any other trial vehicle (i.e. coupon for free product) is likely to frustrate a high percentage of the recipients.

We would also include:

- a letter on Basic stationary (copy forthcoming) which would speak to our product attributes in a manner consistent with our brand character
- a coupon toward their first purchase (\$2 off a carton)
- a "Please order Basic Non-Filter" card to leave with their favorite cigarette retailer if the retailer does not carry the packing

The cost of executing this program would be approximately \$1.8 million assuming we mail to all of the 333,000 Pall Mall smokers on the database that are classified as "Non-Filter" or "Unknown". In addition, there are about 100,000 Filter Pall Mall smokers on the database to whom we could send the same kind of mailing, substituting Basic Full Flavor for the Non-Filter packs.

I'm still confirming timing, but my best guess is that such a mailing could be in Pall Mall smokers hands' in mid October.

Background

Although non-filter smokers have historically been extremely loyal to their brand, there is some evidence that would suggest that a marketing program targeted to Pall Mall Non-Filter smokers could meet with some success.

Pall Mall Non-Filter SOM has declined from 1.47% in December 1989 to 0.81% in June of this year (Nielsen 3MM). This decline mirrors the growth of the deep discount non-filter category (See Chart 1). As more deep discount packings have become available in greater distribution, non-filter smokers by definition have a greater opportunity to try and/or switch to them. National Smoker Tracking, for example, shows that 7% of the Pall Mall Non-Filter franchise outswitched in 1992, which is comparable to the outswitching rate for the industry. 50% of these outswitchers went to a deep discount brand. Similarly, alternate purchasing data for 1992 shows that about 10% of Pall Mall Non-Filter franchise volume goes to other brands, with more than half of this volume going to deep discount brands.

*JJM -
How would
you like to
proceed? Can
you please
let Mike know
in my absence.
RR*

2060178428

Database Name Counts

According to National Tracking, Pall Mall Non-Filter has about a 1.5% share of smokers. With 333,000 Pall Mall Non-Filter names on the database, it appears as though we can target over half of the franchise.

Program Cost

We estimate a per unit cost of about \$5.50 based on the following:

Product related costs for 5 packs	\$3.50
Packaging (outer box/letter/printing/etc.)	\$1.00
Coupon redemption (\$2 X 20%)	\$0.40
Mailing	<u>\$0.60</u>
Total	\$5.50

A mailing to 333,000 Pall Mall smokers would cost \$1,831,500, excluding agency creative costs. Total volume associated with this program is 46.6 million units, making the cost per thousand for this program about \$39.

Recommendation

Although we understand the strategic importance of this mailing and are prepared to execute the attached concept, there are a couple of issues worth mentioning:

- Investing almost \$2 million behind our non-filter packing doesn't seem nearly as attractive as investing that same money behind our menthol packings. Basic menthol has far greater upside potential over the long term and B&W is certainly as worthy a competitor to try to take business from as American. If it's a question of doing one or the other, we'd rather support menthol. If funding is available to do both, then we'd rather do both.
- A one shot mailing, although effective at eliciting trial, does not fully leverage direct mail as a marketing tool nor is it likely to "shake up" the Pall Mall Non-Filter franchise. We have engaged in many activities to elicit trial (FSI, B2G1F, B1G1F), and the non-filter packing presumably benefited from this. If we are to begin using direct mail for Basic, we'd like to flush out a comprehensive program for the entire brand, not just a one shot mailing for the non-filter packing.

2060178429

pall time Chart 1

2060178430

